RV BUSINESS

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DECEMBER 21, 1990

RV Makers Rein in '91-Model Price Hikes

Stiff competition is prompting U.S. motorhome and travel-trailer manufacturers to hold the line on 1991-model year price adjustments, with most companies levying price hikes of no more than 4% and usually much less. This makes for at least three consecutive years during which RV makers have reined in price hikes.

"All the manufacturers in the industry seem to be holding their pricing, and we're holding our prices to a degree," reported Jake Bergh, vice president of sales for Granville Inc., an Elkhart, Ind., motorhome maker affiliated with Canada-based Bonair Leisure Industries. "We've had a chassis increase from Detroit, and we're passing that on. Still, our prices will rise by no more than 3%."

"We haven't had a significant price increase since '89 (model year)," lamented Jack Nicholson, executive vice president of Mallard Coach Co. Inc., in Nappanee, Ind.

Although a number of companies have had to take larger price hikes to maintain quality and fiscal equilibrium during the past three years, manufacturers indicated that that is more the exception than the rule. In most cases, price increments have been so moderate that some executives have expressed concern over the long-term impact of continued conservative pricing on profit margins and earnings throughout the industry.

Here is an overview of other RV manufacturers' approaches to 1991-model pricing:

- "Basically, our pricing stayed very competitive," said John Willibrand, vice president of Play-Mor Trailers Inc., Westphalia, Mo. "It actually got better (lower), with more buy for the buck, due to the fact that buyers got more equipment at a better price."
- "We took approximately 2%, less than inflation," noted Mike Mitchell, board chairman of NuWa Industries Inc., Chanute, Kan. "We're absorbing some of the inflation, just trying to be more competitive."
- Newmar Inc., Nappanee, Ind., boosted prices 3% on its lower-priced units, 6% on more expensive products, according to Marketing Director Don Wright.
- "We've worked very hard at keeping our pricing down," said Kay Toolson, president of Monaco Coach Corp., Junction City, Ore., adding that price boosts for high-end Signature and Crown Royal Class A motorhomes were held to a level of about 1.5%.
- Jayco Inc. Vice President Wilbur Bontrager reported that the Middlebury, Ind., firm put through price increases of 2% to 3% or less.
- "We had a small increase, probably less than what the normal inflation was," noted Perry Yoder, director of sales and marketing for Carriage Inc., Millersburg, Ind. "We added standard equipment in several cases. In general, we were able to stay with about a 2% increase."
- "We went up 4.5% on our (motorhome) bodies," said Ron Frank, board chairman of the Xplorer Motor Home Division of Frank Industries Inc., Brown City, Mich. "There have been some adjustments (discounting) in chassis, so the overall price should be unchanged to the dealer."
- Prices for Fleetwood Enterprises Inc.'s fold-down and

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The economy and the RV industry have clearly entered a recession, but the good news is that the worst may be over: The fourth quarter of 1990 marks the bottom of the RV shipment decline, according to Indiana University's econometric forecast. 1991 should see continuous recovery for RV shipments.

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Dealers who either own their own campgrounds or have established an alliance with a local campground swear by the positive results—not only for the dealership's bottom line but for the industry as a whole.

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AUGUST RETAIL MARKET SLOWS BUT DOES NOT STOP

THOMAS WALWORTH

Motorhome and RV-trailer retail information for August 1990 is complete for the entire nation for the first time this year, now that California vehicle-registration data is once again available. Access to California data previously had been restricted under a 1989 state law.

The August 1990 RV-trailer market was off 3.2% for the year-to-date, while the motorhome market was off 13.9% compared with the first eight months of 1989.

But, even with the downward market trend nationally, nine states topped 1989 year-to-date sales volume in motorhomes, and 25 states surpassed the 1989 year-to-date figures in terms of RV-trailer sales.

RV-trailer sales overall were off 10.7%, or 1,212 units, in August compared with August of last year. Figure 1 shows the seven national regions ranked by the percent change in RV-trailer sales from August 1989. North Dakota led the West North Central region, which showed the largest gain over August of 1989, while the Pacific trailed, with Alaska showing the largest decline.

For the year-to-date, the RV-trailer industry declined 3.2%, or 2,722 units, compared with the same eight months of 1989. In Figure 2, the South Central region led the nation, with the state of Alabama having the largest increase for the year-to-date, while New Hampshire, in the lowest-rated Northeast, reported the largest dip.

Motorhome sales for August 1990 experienced a drop of 20.7%, or 1,098 units, from the same month of 1989. Figure 3 shows the seven regions ranked by the percentage change in motorhome sales compared with August 1989. The South Central region topped the rankings, with the state of Arkansas reporting the strongest market. In the bottom-ranked East North Central region, Indiana had the largest decline.

Year-to-date, motorhome sales were down 13.9%, or 5,526 units, from the same period of 1989. Figure 4 ranks the seven regions according to the year-to-date percentage change in motorhome sales compared with 1989. Topping the list was the South Central region, where Arkansas

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin; Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming; Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont; Pacific: Alaska, California, Oregon, Washington, Hawaii; South Atlantic: Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia; West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota; South Central: Texas, Oklahoma, Arkansas, Louisiana, Tennessee, Mississippi, Alabama.

GRAPHICS: DIGITAL LIFE

RV TRAILERS, AUGUST '90

Aug. '90 Rank	Region	% of Change From Aug. '89	July '90 Rank
1	W.N. Central	+ 9.7	2
2	Mountain	+ 9.1	4
3	S. Atlantic	– .1	3
4	S. Central	– 5.8	5
5	E.N. Central	–10.5	6
6	Northeast	–24.7	7
7	Pacific	–26.1	1

Figure 1

RV TRAILERS, YEAR-TO-DATE

Aug. '90 Rank	Region	% of Change Year-to-Date	July '90 Rank
1	S. Central	+10.4	1
2	Mountain	+ 6.9	3
3	Pacific	+ 2.0	2
4	W.N. Central	– 1.3	4
5	S. Atlantic	– 5.8	5
6	E.N. Central	– 8.3	6
7	Northeast	–17.0	7

Figure 2

MOTORHOMES, AUGUST '90

Aug. '90 Rank	Region	% of Change From Aug. '89	July '90 Rank
1	S. Central	–10.6	2
2	Mountain	–13.8	4
3	W.N. Central	–19.1	5
4	S. Atlantic	–20.1	3
5	Pacific	–20.1	1
6	Northeast	–25.2	7
7	E. N. Central	–30.7	6

Figure 3

MOTORHOMES, YEAR-TO-DATE

Aug. '90 Rank	Region	% of Change Year-to-Date	July '90 Rank
1	S. Central	– 5.6	2
2	W.N. Central	–10.1	3
3	S. Atlantic	–10.5	4
4	Mountain	–11.9	5
5	Pacific	–12.7	1
6	E.N. Central	–21.3	6
7	Northeast	–22.2	7

Figure 4

showed the largest increase. In the lowest-ranked Northeast region, the state of New Hampshire reported the largest decline.

The expected large drop due to the Mideast situation was not seen in the month of August. The market was affected somewhat—sales continued to take place, although the wholesale segment slowed, and lot inventories declined. A clearer picture of the market and the effects of the Mideast problems will be possible when third-quarter statistics are seen. Δ

Thomas Walworth is general manager of Statistical Surveys Inc., Grand Rapids, Mich., which has reported retail statistics for 30 years to the RV industry. Statistical Surveys is an acknowledged leader in the RV statistical field.

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1991
THE ROAD BACK FROM IRAQ

MORTON J. MARCUS

At this writing, three months have passed since Iraq overran Kuwait. Civilians who never heard of Kuwait now can find it on a map, and a massive military force has been moved from the United States and the European continent to serve in the Middle East. But no resolution of the crisis is seen as yet. Meanwhile, where we previously were concerned about a weak economy with slow growth, we now can speak clearly about the recession already in progress.

The longest peacetime expansion of the U.S. economy has come to an end. Employment and earnings are falling. Accelerated inflation, because of petroleum price increases, has cut the buying power of the American household. Businesses and governments are looking for new revenues to replace the shortfall anticipated in the months ahead.

Until the military uncertainty in the Middle East is resolved, the public rightfully will be uneasy—concerned about the safety of relatives and neighbors, and disturbed by the prospects of unstable prices. This discomfort will depress economic activity and continue to hold down advances in the recreational vehicle industry.

But as time goes forward, we will have either a shooting war, a standoff or a political resolution of the conflict. Any of these results, if sustained, will reduce the uncertainties which destabilize the economy. We have lived long periods of time with opposing armies facing each other (think about Korea) without firing a shot. Prosperity is possible in such conditions as we become accustomed to the delicate balance of terror and power. A shooting war, however painful on a personal basis, also can be accepted as a stable, albeit undesirable, condition.

RV sales, like other discretionary consumer durable goods, are hit hard by uncertainties of this magnitude. The talk in the tavern, the features on TV, the dinner-table conversation all center on recession, war, inflation and uncertainty. If the purchase of a big-ticket item can be postponed, it will be. Autos and dishwashers will be nursed along for another few months until the clouds of confusion clear, or we become accustomed to them.

The RV Forecast

Our previous forecast (RVB, Oct. 8, 1990) included a standard or control forecast, and an alternate outlook, which we said could be considered as a "worst likely case scenario." With some changes, that alternate has become our new forecast for the balance of 1990 and all of 1991.

Figure 1

GRAPHICS: DIGITAL LIFE

Since it was September before there was a significant adjustment in RV shipments, the third quarter came in close to our previous control forecast. *(See Figure 1.)* During the majority of the second quarter, the economy was not yet fully affected by the Kuwait crisis so that shipments totaled 91,300 units, just 1.2% lower than our forecast of 92,400.

If the economy had continued in the direction established in the spring and early summer months, total shipments would have followed the path indicated by our previous forecast in Figure 1. That path, however, was blocked and obliterated by the aggression in the Middle East. Now, with the reality of higher oil prices, total shipments in the fourth quarter are expected to decline sharply. We are forecasting a total of just 67,000 units shipped in the last three months of 1990.

The good news: 1991 is a year of steadily improving shipments, with recovery attained by the last quarter of the year. We expect that total shipments in the fourth quarter of 1991 will be back to the level enjoyed before the shock, a total of 91,300 units in that final quarter.

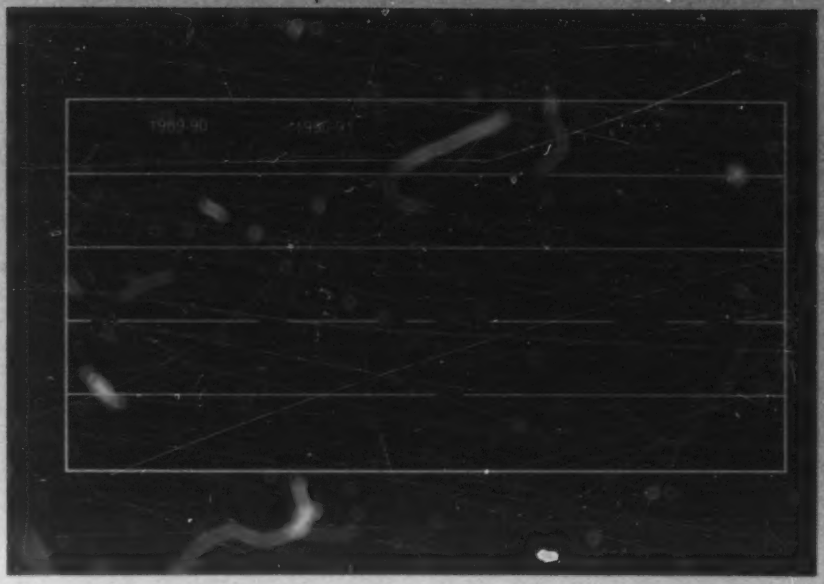

Figure 2

ANNUAL GROWTH RATES AFTER ADJUSTMENT FOR INFLATION

	1989	1990	1991
		– Forecast –	
Gross National Product	2.5	1.0	0.3
Consumer Spending	1.9	1.2	0.7
Business Investment	3.9	1.7	–0.9
Residential Investment	–4.0	–4.2	–7.0
Exports	11.0	5.4	4.7
Imports	6.0	3.6	2.5
Govt. Purchases			
Federal	2.1	1.9	–1.6
State & Local	2.4	2.9	1.7

Figure 3

KEY FACTORS IN THE FORECAST

	1989	1990	1991
		– Forecast –	
Prime Interest Rate (%)	10.9	9.9	9.5
Value of the Dollar (1973=100)	98.5	89.9	83.7
Unemployment Rate (%)	5.3	5.5	6.4
% Change at Annual Rates:			
Money Supply (M2)*	3.7	5.2	4.4
Real Disposable Personal Income	2.4	0.9	0.0
Consumer Price Index	4.8	5.7	5.3
Food & Beverages	5.7	6.0	5.3
Motor-Fuel Prices	9.4	15.7	14.5

*M2 consists of the nation's basic money supply of currency, plus demand deposits, plus savings accounts at commercial banks.

Figure 4

ANNUAL TRENDS

	1989	1990	1991
		– Forecast –	
Unit Auto Sales (millions)	9.9	9.5	8.5
Unit Housing Starts (millions)	1.4	1.2	1.0
Personal Savings Rate (%)	4.6	4.4	3.8
% Change in Compensation per Manhours	3.2	3.2	4.0
Productivity	–0.2	–0.8	–0.3
Unit Labor Costs (Compensation – Productivity = Unit Labor Costs)	3.4	4.0	4.3

Figure 5

The Detailed RV Forecast

On a year-to-year basis, as seen in Figure 2, the decline of 3.4% in 1991 will be far less than the 12.5% fall in 1990. This decline also will be less than half the 7.5% shortfall of 1989. The industry has been moving downward for some time, and the fourth quarter of 1990 may provide a cathartic adjustment, after which growth may be resumed.

Figure 2 shows that only Class B motorhomes (van campers) escaped the downward forces of 1990, although this was achieved on small volume. For 1991, only folding camping trailers are expected to realize shipments greater than in 1990.

The good news is that the declines of 1991 depicted in Figure 2 are generally well below the losses of 1990. Total shipments, which are expected to be down by 50,000 units (12.6%) in 1990, are forecast to fall 12,000 units (3.4%) in 1991. Motorhomes, after falling by 11,100 units in 1990, should cut their decline to 7,500 units in 1991. After a 27,600-unit decline in 1990, van conversions should drop by less than 1,000 units in '91. The 11,300-unit drop for towables in '90 is followed by a smaller 4,000-unit decline in '91.

No one can take much comfort from continuing declines in the industry, but it appears from here that the tide is turning. Each quarter in 1991 is better than its predecessor, and the year-to-year declines are a consequence of the shock to the economy brought on by the rapid rise in oil prices. Recovery for the RV industry will not be sudden, but it will occur as the economy improves. Now we can see how that will happen.

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The National Economy

Our forecast is based on evidence that America is in a recession. Two consecutive quarterly declines in real gross national product (GNP) constitute a recession. With GNP falling in the fourth quarter of 1990 and the first quarter of 1991, the annual data of Figure 3 might hide the recession – but it is there. For calendar-year 1990, we expect to end up with very weak growth of real GNP (the value of all goods and services produced in the market during the year, after adjustment for inflation). In 1989, we had an average growth rate of 2.5%; 1990 is foreseen to finish with just 1.0% growth, below the level necessary to sustain healthy growth. Now, we expect just 0.3% GNP growth for 1991.

Consumer spending will fall from a weak annual real growth rate of 1.2% to just 0.7%.

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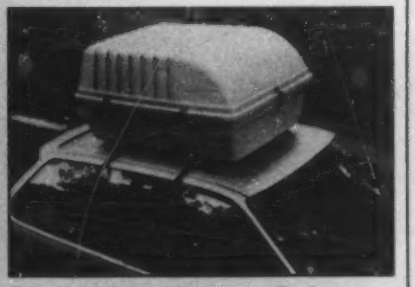
PROFITMAKERS

Superbag Features an All-Season Bed in a Bag

RV n' Sea Recreation Products offers Superbags for RVs, boats and vacation homes. Superbag features two comforters for the price of one, a 5-ounce summer side and a 10-ounce winter side; dual-head nylon zippers on three sides allowing bags to be unzipped to make one bag into two; percale sheets with each bag; water- and mildew-resistant material that is 100% machine-washable; a tote bag for travel and storage; six standard colors (navy, gray, mauve, tan, brown and light blue), with custom colors available; four standard sizes (single, queen, king and V-Berth), with custom sizes available; and optional accessories, including pillow shams, additional sheets, dust ruffles and monogramming. RV n' Sea Recreation Products offers a 30-day money-back guarantee and a 10-year warranty against defects. RV n' Sea Recreation Products, 26516 Lope De Vega, Mission Viejo, Calif. 92691; (714) 830-1292.



Contico Introduces a Deluxe Tuff Shell Luggage Top Carrier

Contico Manufacturing has introduced the aerodynamically designed Deluxe Tuff Shell Luggage Top Carrier Model 1850. An 18-cubic-foot bin made of high-density blow-molded plastic, it opens from the side for easy access. It also has a tight-sealing gasket to keep out dirt and moisture, as well as rubber pads to prevent marring of the car top. A heavy-duty lock is featured with this vinyl-coated, rustproof carrier. Contico International, 1101 Warson Road, St. Louis, Mo. 63132; (314) 997-5900. Δ

FORECAST *from page 23*

Investment by businesses and investment in residential housing will decrease and provide no stimulus to the economy. Federal spending will fall after adjustment is made for inflation, and our state and local governments will not be expanding very fast as they are pressed to sustain revenues in the face of a flat economy and voter hostility to tax increases.

Exports, based on continued healthy expansion in Europe and Japan, will be the only strength we have in the national economy. This just restates the obvious: More and more, America depends on international markets to provide the stimulus to growth which our own economy does not engender.

Interest rates, which are of importance to the RV forecast, will be declining in 1991 as the Federal Reserve pumps money into the economy. *(See Figure 4.)* But the Fed will not be very expansive, so don't look for big declines in interest rates. Although the Fed would like to keep the recession short and shallow, it can't let interest rates decline too fast or we would see U.S. and foreign investors pull out of American bond markets, and we need their funds to support our deficit spending. So the unemployment rate will rise from 5.5% to 6.4%, but we will not sustain as deep a decline in the value of the dollar. This will keep the prices of imports from rising very rapidly, and the inflation rate can fall as seen in the Consumer Price Index in Figure 4.

Now, when we talk about deficit spending, it is not just the federal government that will spend faster than it brings in the dollars. Note that, in Figure 4, real disposable personal income is expected to hold steady (no growth), but Figure 3 shows consumer spending rising by 0.7%. If income is not going up, and spending is rising, there must be a decline in savings and more borrowing. Thus, the personal savings rate is expected to fall from 4.4% in 1990 to just 3.7% in 1991. *(See Figure 5.)*

Real disposable income, a key to RV sales, will not be rising because of three factors: reduced employment, higher taxes and higher prices. The inflation outlook is not as bad for next year as we might have expected. Consumer prices in 1990 are probably going to have a 5.7% increase. The resolution of the Middle East conflict should keep oil prices from rising as rapidly in 1991.

The bad news on the inflation front will be the progressive rise of unit labor costs, as shown in Figure 5. This long-term cost-push factor sets a base rate for inflation in the years ahead. As such, it indicates another force that will keep long-term interest rates from falling enough to provide sustaining stimulus to the economy.

Motor-fuel prices will rise faster than the general rate of inflation, thereby again depressing RV sales. *(See Figure 4.)* Also hurt by the lack of gain in real disposable income are housing starts and auto sales. *(See Figure 5.)* In each case, we anticipate a decline for 1991.

The lack of strength in the housing and auto markets will hurt the Midwest in particular. The Northeast is undergoing a restructuring of the financial sector, with banks and brokerage houses reducing staff. The Oil Patch has yet to realize major gains from the rise in petroleum prices since it has great excess capacity left over from the last oil boom. As a result, the best prospects for 1991 would appear to be in the Southeast and Pacific regions, where long-term growth trends will be moderated but not eliminated.

Concluding Notes

The year ahead can be seen as one of improvement. The worst may be over now that the shock of rising oil prices is working its way through the economy. From here on out, it is a question of how rapidly those adverse effects move through the system.

We have made no reference to the federal budget deficit here. That is because, despite the headlines of the past few months, Congress and President Bush did virtually *nothing*. They cut the anticipated increase in federal spending; they did not cut spending. They raised a few taxes so that if you are a heavy drinker and a heavy smoker who earns over $56,000 per year, you will notice their efforts. But until all Americans feel the pain, there will be no progress on this front.

The economies of Western Europe, the new united Germany and Japan continue to show strength, which will help our exporting industries. Many visitors from these nations will use their dollars gained in trade from the United States to buy vacations here because prices in the United States will seem low due to the decline in the dollar. These German, Dutch, Spanish, Japanese, French and other visitors could see America in rental motorhomes, and they may become sales targets for exports of RVs in the future.

This recession may be a good thing—if it shakes America out of the sluggishness of the past few years. Adversity energizes. Perhaps it will push us to resume our national quest for a better life rather than just celebrating our past successes. Δ

Morton J. Marcus is the director of the Indiana Business Research Center at Indiana University School of Business, where he is also a member of the faculty. Marcus specializes in using statistics to identify economic trends.